

Financial Statements

**Monroe Community
Mental Health Authority**

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Moroe Community Mental Health Authority	County Monroe
Fiscal Year End 9-30-05	Opinion Date 2-13-06	Date Audit Report Submitted to State 5-5-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

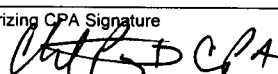
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Government Auditing Stnds	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.	Telephone Number 989-463-6123		
Street Address 308 Gratiot Avenue	City Alma	State MI	Zip 48801
Authorizing CPA Signature 	Printed Name CHAD R. PAYTON, CPA		License Number 21946

Monroe Community Mental Health Authority
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September 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Monroe Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-V, and budgetary comparison information on pages 28 - 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co., P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 13, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

Monroe Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

The management of Monroe Community Mental Health Authority (MCMHA) presents the following overview and analysis of financial activities during fiscal year 2004/2005.

Financial Highlights

- MCMHA's total net assets increased \$498,809 over the course of the fiscal year's operations.
- MCMHA received \$25,618,247 in revenue for Fiscal year 2005, of which \$18,409,600 was in Medicaid revenue, \$5,166,051 in State revenues, \$997,803 in County Appropriations, \$474,556 in Grant Revenue, and \$570,237 in interest and earned revenue.
- MCMHA's expenses in Fiscal year 2005 were \$25,477,017, of which \$8,959,033 was for wages and benefits and \$16,221,115 was for operating expenses, \$291,400 was for capital outlay expenses, and \$5,469 was for debt service.

MCMHA's budget changes highlights.

- Less funding was received than was budgeted for Adult Benefit Waiver.
- More Medicaid funding was received than budgeted. Original budget figure did not include previous years Medicaid savings spent on current expenses.
- Received less General Fund revenue.
- Increased DCH and Federal Grants.
- Interest from bank accounts is increasing.

MCMHA's change in capital assets.

- Additional computers were purchased during the fiscal year.
- Financial package software was purchased during the fiscal year.
- Additional copier equipment is being purchased through a lease over the next five years.
- Vehicle disposal occurred during the year.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of MCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. MCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds have a narrower focus than that of government-wide financial statements in that the focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary funds are internal service funds, which are held as a self-insurance against future risk. These funds consist of State of Michigan Medicaid and General Funds and accumulated interest and must be held for future risk.

A crosswalk between government-wide and fund statements is included as Appendix A to this discussion. By comparing the two types of statements, the reader may better understand the long-term impact of the organization's immediate year decisions.

Comparison With Prior Year

This is the fourth year MCMHA has reported under GASB 34, the comparison with the prior year is attached in Appendix B.

About the Future

The State of Michigan has not given the Mental Health system a final contract for General Fund revenues. This should be finalized during the 2006 fiscal year. Monroe CMHA will continue to review Administrative overhead through electronic efficiencies, such as Financial software, clinical records software and phone system upgrades, reviewing other administrative costs such as Banking services and consulting contracts. MCMHA also anticipates it will finalize the purchase of the Raisinville building this year and pursue building renovations over the next several years. We will continue to implement Evidences based practices.

MCMHA is also anticipating additional revenue enhancements through billing for Injections, increasing billable therapists and enrolling with other insurances. We expect within the next year to become licensed as a Child Placing Agency. There may be an opportunity to obtain funding under the new SED C waiver which will be pursued as it becomes available through the state.

The Medicaid dollars for Monroe County Medicaid eligibles are coming to MCMHA from Washtenaw Community Health Organization (WCHO) according to the terms of the Preferred Inpatient Health Plan agreement between WCHO and Michigan Department of Community Health. This relationship is expected to continue according to the terms in that agreement. Medicaid revenue has increased according to our consumer service needs.

Peer support services as well as Children services have grown and we anticipate these services will continue to increase. We will also be offering Fiscal Intermediary services to consumers wanting to manage their own supports. In order to promote community inclusion and recovery we anticipate skill building services will decrease and transitional employment, supported employment and community living services will increase.

Appendix A
Crosswalk: Government-wide Statement of Assets and Funds Statements

	Government Wide	Governmental Funds	Proprietary Fund (ISF)	General Fixed Assets	General Long-term Debt
Assets					
Current Assets					
Cash in Bank	6,273,926	6,273,926			
Accounts Receivable, Net	520,146	520,146			
Due from other governmental units	1,125,646	1,125,646			
Prepaid Expenses	285,745	285,745			
Due from other funds	-	43			
Restricted Assets	53,533		53,533		
Total Current Assets	8,258,996				
Non-current Assets					
Capital assets, land	54,000			54,000	
Capital assets - depreciable, net	952,771			952,771	
Total Non-current Assets	1,006,771			1,006,771	
Total Assets	9,265,767	8,205,506	53,533	1,006,771	-
Liabilities					
Current Liabilities					
Accounts Payable	654,597	654,597			5,966
Accrued Payroll, fringes and compensated absences	351,590	351,590			5,966
Due to other governmental units	843,852	843,852			
Deferred Revenue	187,777	187,777			
Due to other funds	-		43		
Capital Lease	5,966				
Total Current Liabilities	2,043,782	2,037,816	43		
Noncurrent Liabilities					
Capital Lease	12,430				12,430
Compensated Absences	223,496				223,496
Total Noncurrent Liabilities	235,926				235,926
Total Liabilities	2,279,708	2,037,816	43	-	241,892
Fund Balances					
Invested in capital assets	988,375			1,006,771	
Reserved for Risk Management	53,490		53,490		
Reserved for Prepaid Expenses	-	285,745			
Unreserved	5,944,194	5,881,945			
	6,986,059	6,167,690	53,490	1,006,771	
Total Liabilities and Fund Balances	9,265,767	8,205,506	53,533	1,006,771	n/a

Appendix B
Prior Year Comparison

	2004 TOTAL	INCREASE (DECREASE)	2005 TOTAL
Assets			
Cash in Bank	7,716,919	(1,442,993)	6,273,926
Accounts Receivable, Net	449,908	70,238	520,146
Due from Other Governmental Units	581,397	544,249	1,125,646
Prepaid Expenses	87,453	198,292	285,745
Restricted Assets	311,414	(257,881)	53,533
Capital Assets	883,243	123,528	1,006,771
Total Assets	10,030,334	(764,567)	9,265,767
Liabilities			
Accounts Payable	1,233,956	(579,359)	654,597
Deferred Revenue	377,255	(189,478)	187,777
Due to Other Governmental Units	1,428,887	(585,035)	843,852
Accrued Payroll and fringes	268,884	82,706	351,590
Compensated Absences	210,237	13,259	223,496
Capital Lease	23,865	(5,469)	18,396
Total Liabilities	3,543,084	(1,263,376)	2,279,708
Net Asset			
Investment in Capital Assets	859,378	128,997	988,375
Internal Service Funds	51,278	2,212	53,490
Unrestricted Net Assets	5,576,594	367,600	5,944,194
Net Assets without Capital Assets	5,627,872	369,812	5,997,684
Total Net Assets	6,487,250	498,809	6,986,059
Total Liabilities and Net Assets	10,030,334	(764,567)	9,265,767

Appendix B
Prior Year Comparison

REVENUES		2004 TOTAL	INCREASE (DECREASE)	2005 TOTAL
State Grants				
Department of Community Health Contract		4,061,143	791,904	4,853,047
Adult Benefit Waiver		346,870	(59,093)	287,777
Title XX		8,874	-	8,874
Other State Revenue		16,461	(108)	16,353
Total State Grants		4,433,348	732,703	5,166,051
Federal Grants		398,653	75,903	474,556
County Appropriations		997,803	-	997,803
Charges for Services				
Medicaid - DCH Contract/PIHP		17,365,927	898,017	18,263,944
Medicaid		291,466	(145,810)	145,656
Earned Revenue		260,778	112,045	372,823
Total Charges for Services		17,918,171	864,252	18,782,423
Interest		87,819	80,213	168,032
Rents		23,711	(263)	23,448
Other Revenues		400	5,534	5,934
Total Revenues		23,859,905	1,758,605	25,618,247
EXPENDITURES				
Personnel Costs		8,258,123	700,910	8,959,033
Operating Costs		15,197,688	1,023,427	16,221,115
Capital Outlay		46,522	244,878	291,400
Debt Service		5,966	(497)	5,469
Total Expenditures		23,508,299	1,968,718	25,477,017
Excess of Revenues over (Under) Expenditures		351,606	(210,113)	141,230

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Monroe Community Mental Health Authority
Statement Of Net Assets
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$6,273,926	\$7,716,919
Accounts receivable, net	520,146	449,908
Due from other governmental units	1,125,646	581,397
Prepaid items	285,745	87,453
Total current assets	8,205,463	8,835,677
Noncurrent assets		
Cash and cash equivalents - restricted	53,533	311,414
Capital assets - depreciable, net	952,771	829,243
Capital assets - land	54,000	54,000
Total noncurrent assets	1,060,304	1,194,657
Total assets	9,265,767	10,030,334
Liabilities		
Current liabilities		
Accounts payable	654,597	1,233,956
Accrued wages and other payroll liabilities	351,590	268,884
Due to other governmental units	843,852	1,428,887
Deferred revenue	187,777	377,255
Current portion of capital leases payable	5,966	5,966
Total current liabilities	2,043,782	3,314,948
Noncurrent liabilities		
Capital leases payable, net of current portion	12,430	17,899
Compensated absences	223,496	210,237
Total noncurrent liabilities	235,926	228,136
Total liabilities	2,279,708	3,543,084
Net Assets		
Invested in capital assets, net of related debt	988,375	859,378
Restricted for risk management	53,490	51,278
Unrestricted	5,944,194	5,576,594
Total net assets	\$6,986,059	\$6,487,250

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement of Activities
For The Year Ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$25,361,279</u>	<u>\$18,782,423</u>	<u>\$6,667,792</u>	\$88,936	(\$125,035)
General revenues					
Unrestricted investment earnings				168,032	87,819
Restricted investment earnings				<u>2,255</u>	<u>4,084</u>
Total general revenues				<u>170,287</u>	<u>91,903</u>
Change in net assets				259,223	(33,132)
Net assets - beginning of year				6,487,250	6,599,008
Prior period adjustments				<u>239,586</u>	<u>(78,626)</u>
Net assets - end of year				<u>\$6,986,059</u>	<u>\$6,487,250</u>

The Notes to the Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Monroe Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2005 and 2004

	General Fund	
	2005	2004
Assets		
Cash and cash equivalents	\$6,273,926	\$7,716,919
Accounts receivable, net	520,146	449,908
Due from other governmental units	1,125,646	581,397
Due from other funds	43	-
Prepaid items	285,745	87,453
Total Assets	<u>\$8,205,506</u>	<u>\$8,835,677</u>
Liabilities		
Accounts payable	\$654,597	\$1,233,956
Accrued wages and other payroll liabilities	351,590	268,884
Due to other governmental units	843,852	1,168,751
Deferred revenue	187,777	377,255
Total liabilities	<u>2,037,816</u>	<u>3,048,846</u>
Fund balances		
Reserved for prepaid items	285,745	87,453
Unreserved	<u>5,881,945</u>	<u>5,699,378</u>
Total fund balances	<u>6,167,690</u>	<u>5,786,831</u>
Total liabilities and fund balances	<u>\$8,205,506</u>	<u>\$8,835,677</u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Reconciliation Of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement Of Net Assets
For The Year Ended September 30, 2005

Total fund balance - governmental funds	\$6,167,690
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	2,427,262
Deduct: accumulated depreciation	(1,420,491)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	53,490
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Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct: Capital leases payable	(18,396)
Deduct: Compensated absences	(223,496)

Net assets of governmental activities	<u><u>\$6,986,059</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended September 30, 2005 and 2004

	General Fund	
Revenues	2005	2004
State grants		
Department of community health contract	\$4,853,047	\$4,061,143
Adult benefit waiver	287,777	346,870
Title XX	8,874	8,874
Other state revenues	16,353	16,461
Total state grants	5,166,051	4,433,348
Federal grants	474,556	398,653
Contributions - local units		
County appropriations	997,803	997,803
Charges for services		
Medicaid - Washtenaw CMH contract	18,263,944	17,365,927
Medicaid - other	145,656	291,466
Client and third party pay	178,858	93,995
Other earned contract revenue	193,965	166,783
Total charges for services	18,782,423	17,918,171
Interest and rents		
Interest	168,032	87,819
Rents	23,448	23,711
Total interest and rents	191,480	111,530
Other revenues	5,934	400
Total revenues	25,618,247	23,859,905

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended September 30, 2005 and 2004

	General Fund	
	2005	2004
Expenditures		
Health & Welfare - Mental Health		
Current:		
Personnel costs	\$8,959,033	\$8,258,123
Operating expenditures	16,221,115	15,197,688
Capital outlay	291,400	46,522
Debt service	5,469	5,966
Total expenditures	25,477,017	23,508,299
Revenues over (under) expenditures	141,230	351,606
Other Financing Sources (Uses)		
Operating transfers in	43	-
Capital lease proceeds	-	29,831
Total other financing sources	43	29,831
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	141,273	381,437
Fund balance, beginning of year	5,786,831	5,484,020
Prior period adjustments	239,586	(78,626)
Fund balance, end of year	\$6,167,690	\$5,786,831

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$141,273
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	291,400
Deduct: depreciation expense	(158,960)
Lease payments on capital lease obligations are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term capital leases payable).	5,469
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: net revenue (expense) from governmental internal service fund	2,212
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	(13,259)
Other adjustments	<u>(8,912)</u>
Change in net assets of governmental activities	<u><u>\$259,223</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Net Assets
Proprietary Funds
September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$53,533	\$311,414
Liabilities		
Due to General Fund	43	-
Due to other governmental units	<u>-</u>	<u>260,136</u>
Net Assets - Restricted	<u>\$53,490</u>	<u>\$51,278</u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenses And Changes In Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Non-operating revenues (expense)		
Interest income	<u>\$2,255</u>	<u>\$4,084</u>
Operating transfers		
Transfers to General Fund	(43)	-
Transfers to other governmental units	<u>-</u>	<u>(260,136)</u>
Change in net assets	2,212	(256,052)
Net assets, beginning of year	<u>51,278</u>	<u>307,330</u>
Net assets, end of year	<u><u>\$53,490</u></u>	<u><u>\$51,278</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers out - other funds	(\$260,136)	(\$1,145,478)
Cash flows from investing activities		
Proceeds from interest earnings	<u>2,255</u>	<u>4,084</u>
Net increase (decrease) in cash	(257,881)	(1,141,394)
Cash and cash equivalents, October 1	<u>311,414</u>	<u>1,452,808</u>
Cash and cash equivalents, September 30	<u><u>\$53,533</u></u>	<u><u>\$311,414</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	<u>-</u>	<u>-</u>
Net cash used by operating activities	<u><u>-</u></u>	<u><u>-</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Fiduciary Net Assets
September 30, 2005 and 2004

		<u>Post-employment Benefits</u>	
		<u>2005</u>	<u>2004</u>
Assets			
Investments		<u>\$1,525,294</u>	<u>\$1,593,791</u>
Liabilities		-	-
Net Assets			
Restricted		<u>\$1,525,294</u>	<u>\$1,593,791</u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Changes in Fiduciary Net Assets
For The Year Ended September 30, 2005 and 2004

	<u>Post-employment Benefits</u>	
	<u>2005</u>	<u>2004</u>
Investment Earnings		
Net increase (decrease) in fair value of investments	<u>\$77,023</u>	<u>\$112,125</u>
Total additions	77,023	112,125
Deductions		
Benefits	(135,143)	(77,967)
Administrative and general expenses	<u>(10,377)</u>	<u>(10,582)</u>
Total deductions	<u>(145,520)</u>	<u>(88,549)</u>
Change in net assets	(68,497)	23,576
Net assets, beginning of year	<u>1,593,791</u>	<u>1,570,215</u>
Net assets, end of year	<u><u>\$1,525,294</u></u>	<u><u>\$1,593,791</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Monroe Community Mental Health Authority
Notes To The Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Monroe Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Monroe County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Monroe Community Mental Health Authority
Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Any revenues not meeting this definition are reported as non-operating revenues. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds - Pension Trust Funds - These funds account for assets for which the Authority is responsible as a trustee under the employee's retirement plan. These funds are custodial in nature and recognize assets and liabilities on an accrual basis. The financial statements for these funds use the economic resources measurement focus for reporting. The government-wide financial statements do not include the Fiduciary Funds because its resources are not available to support the Authority's programs.

Monroe Community Mental Health Authority
Notes To The Financial Statements

The Authority reports the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and local counties.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventory

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Authority as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	3-20
Automobiles	5
Buildings and Improvements	25
Land	Not Applicable – Not Depreciated

Restricted Assets

Cash has been restricted to fund the net uninsured exposure of potential shortfalls of risk contract revenues. These restricted assets are held in a separate cash account with a local financial institution.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance not available for appropriation for expenditure.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Monroe Community Mental Health Authority
Notes To The Financial Statements

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 29 of this report as unfavorable variances.

3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and investments are as follows:

	2005	2004
Petty Cash	\$1,764	\$3,328
Checking and savings accounts	1,325,695	3,025,005
Certificates of deposit	5,000,000	5,000,000
Totals	\$6,327,459	\$8,028,333

At year end, the carrying amount of the Authority's cash deposits was \$6,325,695 and the bank balance was \$7,350,435. Of the bank balance, \$200,000 was covered by federal depository insurance and the remaining was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Monroe Community Mental Health Authority
Notes To The Financial Statements

A detail of cash, cash equivalents and certificates of deposit follows:

	2005	2004
Cash and cash equivalents – current assets	\$1,273,926	\$2,716,919
Cash and cash equivalents – restricted assets	53,533	311,414
Certificates of deposit	5,000,000	5,000,000
Total	\$6,327,459	\$8,028,333

Due from Other Governmental Units -

Due from other governmental units as of September 30, consists of the following:

	2005	2004
Michigan Department of Community Health – Various Federal Grants	\$57,323	\$46,501
Washtenaw Community Health Organization	585,845	-
County of Monroe	-	375,852
Michigan Department of Community Health – 2004 Fiscal Year Amended Cost Settlement	271,095	
Medicaid – Children’s Model Waiver	211,383	159,044
Totals	\$1,125,646	\$581,397

Capital Assets

Capital assets activity for the year ended September 30, 2005 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Equipment and Furnishings	\$796,550	\$291,400	-	\$1,087,950
Automobiles	752,941	-	\$161,461	591,480
Buildings and Improvements	693,832	-	-	693,832
Land	54,000	-	-	54,000
Sub-total cost	2,297,323	291,400	161,461	2,427,262
Accumulated Depreciation	1,414,080	158,960	(152,549)	1,420,491
Net Capital Assets	\$883,243			\$1,006,771

Monroe Community Mental Health Authority
Notes To The Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30, consists of the following:

	2005	2004
Washtenaw CMH – Medicaid Lapse	\$39,780	\$120,883
Washtenaw CMH – Transfer of Medicaid portion of Internal Service Fund	-	260,136
Washtenaw CMH – 2003/2004 Fiscal Year Adjustment	31,509	-
Michigan Department of Community Health – Cost Settlement Liability - 2002/2003 Fiscal Year	-	235,317
Michigan Department of Community Health – Cost Settlement Liability - 2003/2004 Fiscal Year	693,371	693,371
MDCH – Inpatient Liability	79,192	119,180
Totals	\$843,852	\$1,428,887

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Deferred Revenue

Deferred revenue as of September 30, consists of the following:

	2005	2004
General Fund Carry Over – MDCH Grant	\$187,777	\$236,788
Title IV E	-	140,467
Totals	\$187,777	\$377,255

Long Term Liabilities – Compensated Absences

The Authority allows employees to carryover into the following year, any unused, paid time off, up to a maximum of 216 hours. All regular full time employees accrue annual leave on a monthly basis. Amounts accrued vary depending on the employee's length of service with the Authority. Upon termination of employment, annual leave balances are paid at the current rate of pay. As of September 30, 2005 and 2004, compensated absences liability was \$223,496 and \$210,237, respectively.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Long Term Liabilities – Capital Lease Obligations

The Authority has long-term noncancelable capital leases with Ervin Leasing to finance the acquisition of Sharp Copiers. The leases qualify as capital leases for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*, and therefore have been recorded at the future minimum lease payments at the date of inception of the leases. Future minimum lease payments to be made from unrestricted revenues of the general fund under these capital leases are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2006	\$5,966
2007	\$5,966
2008	\$5,966
2009	\$497

The changes in long term liabilities during the 2005 fiscal year are as follows:

Governmental Activities	Beginning Balance	Additions	Decreases	Ending Balance
Compensated Absences	\$210,237	\$13,259	-	\$223,496
Capital Leases	23,865	-	\$5,469	18,396

Operating Leases

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

At September 30, the Authority was committed, subject to cancellation provisions, for rental payments under operating leases as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2006	\$468,460
2007	53,856
2008	5,966
2009	994
Thereafter	-

Monroe Community Mental Health Authority
Notes To The Financial Statements

4. OTHER INFORMATION

Retirement Plans

Monroe County Employees Retirement System

Plan Description

Substantially all employees of the Authority are covered by the Monroe County Employees Retirement System (the "Plan"). The Plan provides retirement, disability and death benefits to members and their beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Authority's payroll for employees covered by the Plan for the 2004 calendar year was \$6,054,092.

Funding Policy

The plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Periodic employer contributions to the pension plan are determined on an actuarial basis using an entry age actuarial funding method. Normal cost is funded on a current basis. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over future periods.

Employees of the Authority do not contribute to this plan.

GASB 25 Information	
<i>Actuarial Accrued Liability</i>	
Retirees and beneficiaries currently receiving benefits	\$2,108,181
Terminated employees not yet receiving benefits	2,044,649
Present active members	8,934,505
Total actuarial accrued liability	13,087,335
Net assets available for benefits at actuarial value	18,896,231
Unfunded (over funded) actuarial accrued liability	(\$5,808,896)

Monroe Community Mental Health Authority
Notes To The Financial Statements

Social Security Opt Out Retirement Plan

Plan Description

On January 1, 1997, the Authority became a separate legal entity when it became the Monroe Community Mental Health Authority. As a new governmental entity, its employees did not automatically receive social security coverage. For new governmental entities, if employees are covered under a qualifying retirement plan, FICA is not required. Medicare coverage is required. The Authority's employees must vote to request social security coverage.

During the year ended September 30, 1999, the Authority's employees voted to elect out of the social security system and provide for employer and employee contributions to a money purchase pension plan. This election out of the social security system applies only to full time employees of the Authority. All other employees remain within the social security system.

Funding Policy

Employee contributions to this plan are at the rate of 6.2% of gross wages; employer contributions to this plan are at the rate of 5.0% of gross wages. Under this plan, all contributions are immediately vested with the employee.

During the year ended September 30, 2005 and 2004, the Authority contributed \$318,067 and \$300,064, respectively, to this plan.

Post Employment Benefits

Plan Description

The Authority provides certain post employment health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Authority. The Authority shall provide retirees who are receiving benefits from its retirement plan medical insurance coverage. To qualify, an individual must be employed by the Authority at the time of retirement. When the retired employee attains the age of sixty-five years, the Authority's contribution shall be supplementary to Medicare Part B. The Authority also is required to provide certain medical insurance coverage to the retiree's spouse and dependent children.

Funding Policy

Participants employed prior to January 1, 1996 shall not be required to contribute to this plan. Participants employed on or after this date shall be required to contribute 1.5% of their wages to this plan.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$5,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000,000 for property and crime. The contribution made by the Authority to the MMRMA was \$125,994 for the period July 1, 2005 to July 1, 2006.

Related Party Transactions

The Authority leases its Raisinsville Road facility from the Monroe County Municipal Building Authority. The lease agreement dated May 21, 1987 provides for annual lease payments of \$284,316 and expires August 15, 2006.

Prior Period Adjustment

During the 2004 fiscal year, prior period adjustments consist of: 1) \$81,787 of additional Medicaid carryforward dollars, and 2) (\$3,161) of state facility cost overpayments. During the 2005 fiscal year, prior period adjustments consist of adjustments to the 2004 fiscal year cost settlement with Washtenaw CMH Authority and the Michigan Department of Community Health.

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

REQUIRED SUPPLEMENTAL INFORMATION

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes
In Fund Balance - Budget And Actual
General Fund
For The Year Ended September 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants				
Department of community health contract	\$5,004,339	\$5,083,284	\$4,853,047	(\$230,237)
Adult benefit waiver	342,945	324,891	287,777	(37,114)
Title XX	-	-	8,874	8,874
Other state revenues	16,406	16,406	16,353	(53)
Total state grants	5,363,690	5,424,581	5,166,051	(258,530)
Federal grants	430,290	425,260	474,556	49,296
Contributions - local units				
County appropriations	997,803	997,803	997,803	-
Charges for services				
Medicaid - Washtenaw CMH contract	17,108,889	17,478,920	18,263,944	785,024
Medicaid - other	310,705	310,705	145,656	(165,049)
Client and third party pay	147,305	147,305	178,858	31,553
Other earned contract revenue	129,786	161,350	193,965	32,615
Total charges for services	17,696,685	18,098,280	18,782,423	684,143
Interest and rents				
Interest	88,653	136,921	168,032	31,111
Rents	-	-	23,448	23,448
Total interest and rents	88,653	136,921	191,480	54,559
Other revenues	12,474	17,174	5,934	(11,240)
Total revenues	24,589,595	25,100,019	25,618,247	518,228

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes
In Fund Balance - Budget And Actual
General Fund
For The Year Ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$9,130,141	\$8,944,141	\$8,959,033	(\$14,892)
Operating expenditures	15,304,866	15,786,351	16,221,115	(434,764)
Capital outlay	154,588	369,527	291,400	78,127
Debt service	-	-	5,469	(5,469)
Total expenditures	<u>24,589,595</u>	<u>25,100,019</u>	<u>25,477,017</u>	<u>(376,998)</u>
Revenues over (under) expenditures	-	-	141,230	141,230
Other financing sources (uses)				
Operating transfers in	-	-	43	43
Excess of revenues and other sources over expenditures and other uses	-	-	141,273	141,273
Fund balance, beginning of year	5,786,831	5,786,831	5,786,831	-
Prior period adjustment	-	-	239,586	239,586
Fund balance, end of year	<u>\$5,786,831</u>	<u>\$5,786,831</u>	<u>\$6,167,690</u>	<u>\$380,859</u>

The Notes to the Financial Statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

MONROE COMMUNITY MENTAL HEALTH AUTHORITY
SUPPORTING SCHEDULE OF PERSONNEL COSTS
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Personnel costs		
Salaries and wages	\$6,867,442	\$6,363,766
Fringe benefits	<u>2,091,591</u>	<u>1,894,357</u>
Total personnel costs	<u><u>\$8,959,033</u></u>	<u><u>\$8,258,123</u></u>

The Notes to the Financial Statements are an integral part of this statement.

MONROE COMMUNITY MENTAL HEALTH AUTHORITY
SUPPORTING SCHEDULE OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	
	<u>2005</u>	<u>2004</u>
Operating expenditures		
Advertising	\$107,385	\$41,201
Communications	142,036	112,269
Contractual services	6,883,994	7,246,971
Housing expense	81,909	72,068
Inpatient / hospital expense	741,289	595,339
Insurance	128,467	97,409
Local funds contribution	483,968	483,969
Other	109,224	183,342
Rental expense - buildings and other	607,448	500,724
Rental expense - state leases	196,420	161,549
Repairs and maintenance	183,508	123,230
Residential home services	4,482,453	3,963,036
State facilities expense	900,780	498,203
Supplies and small equipment purchases	462,157	558,188
Training	221,950	142,000
Transportation and vehicle expense	270,592	241,241
Travel and conferences	121,366	92,585
Utilities	96,169	84,364
Total operating expenditures	<u>\$16,221,115</u>	<u>\$15,197,688</u>

The Notes to the Financial Statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the financial statements of the governmental activities and each major fund of Monroe Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority, in a separate letter dated February 13, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co., P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 13, 2006



MANAGEMENT LETTER

Board of Directors
Monroe Community Mental Health Authority
Monroe, Michigan

In planning and performing our audit of the financial statements for Monroe Community Mental Health Authority for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated February 16, 2006, on the financial statements of Monroe Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 16, 2006

Reconcile Accounts to Supporting Documents

In order to make the financial reports generated by the accounting system as meaningful as possible, the Authority should reconcile the general ledger accounts for all balance sheet accounts to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

A reconciliation of accounts receivable from the general ledger to the accounts receivable detail ledger should be prepared to check that the recording of transactions is accurate and proper and that any adjustments to, or write-offs of, accounts receivable have been approved.

A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items.

Other account balances, such as prepaid expenses, other receivables, other payables, etc., should also be reconciled and adjusted to the correct balances on a monthly basis. These reconciliations and adjustments will ensure meaningful and accurate financial statements. The financial statements can then be used to help in the management decision-making process.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Monitor Accounts Receivable and Timely Bill for Services Provided

During the 2005 fiscal year, the Authority was in the process of implementing new accounting and reporting software for various centralized computer functions. During the implementation process, the Authority was unable to timely bill payors for services provided.

In the future, we recommend management bill for services provided on a timely basis because we believe that once a receivable is over 90 days old, it becomes increasingly difficult to collect. Uncollected accounts result in a direct decrease in fund balance and also a reduction of interest income.

Perform Surprise Payroll Pay-outs

As a precaution against the use of fictitious employees, we recommend that the finance manager perform periodic surprise pay-outs at various locations of the Organization. This will require the finance manager to distribute pay checks to each employee and to verify identification. If an employee is sick or on vacation during the pay-out, that check should be held for the employee in a safe. When the employee returns, the check should be given by the finance manager to the employee.

Time Sheets

Since time sheets are one of the source documents supporting the Authority's labor expense, we recommend that all employees be required to sign time sheets and submit them to their supervisor or manager for approval. The supervisors or managers should also sign each time sheet indicating review and approval of hours worked. The supervisors or managers should also be responsible for obtaining the cards from employees and submitting them to the human resources director in a timely manner.